

**INTERAGENCY
GROUP ON
INSULAR
AREAS
(IGIA)**

**PROGRESS REPORT
ON
ISLAND/FEDERAL
ISSUES**

INTRODUCTION

Purpose

President Clinton established the Interagency Group on Insular Areas (IGIA) by Executive Memorandum on August 9, 1999. The Memorandum states that IGIA shall work with the Secretary of the Interior to identify issues concerning American Samoa, the Commonwealth of the Northern Mariana Islands, Guam and the U.S. Virgin Islands (collectively, “insular areas”) and to make recommendations to the President concerning Federal Government policies and programs raising such issues. Additionally, the IGIA shall consult with the Governors, Delegates to the U.S. House of Representatives and other elected representatives of the insular areas on issues of concern. Furthermore, Executive departments and agencies should coordinate significant decisions and activities related to the insular areas with the IGIA.

IGIA Process

The IGIA process began with Co-Chairs named by the Secretary of Interior, Bruce Babbitt, and the Director of the White House Office of Intergovernmental Affairs, Mickey Ibarra. Secretary Babbitt selected John Berry, the Assistant Secretary of the Department of the Interior for Policy, Management and Budget. White House Director Ibarra selected Jeffrey Farrow, the Co-Chair of the President's Interagency Group on Puerto Rico. By directing the heads of all Executive departments, agencies and offices to select senior officials for IGIA membership, the President formalized a mechanism to obtain a high level network, a flexible focal point for improved policy coordination and responsiveness.

The IGIA held an initial organizational meeting on January 18, 2000 and decided to support general goals in working with the Insular Areas, including promoting sustainable economic growth consistent with the sound management of natural resources and improving the general welfare of the insular areas consistent with U.S. social and economic indicators. With unemployment in double digits and other island metrics falling short of national norms, Americans in the insular areas have not kept up with the vibrant domestic economy. The Co-Chairs called for all IGIA members to respond by February 18, 2000 with a list of all regulatory programs, assistance programs, services or activities applicable in the insular areas. As to assistance programs, the agencies were requested to identify any assistance programs for which the insular areas are eligible but in which they do not currently participate. The questionnaire also asked about relevant and timely policy issues and about how the insular areas were informed of agency programs.

Concurrent with the January 18 meeting, senior staff at the Interior Department's Office of Insular Affairs held meetings with island political and business leaders to obtain their priorities of immediate and long term issues that the IGIA could focus on. As a result of this consultation, a list of concerns for each insular area was generated. These lists were sent to all IGIA members

for their consideration on February 11, 2000 together with notice of the IGIA's second all Federal member meeting scheduled for February 22, 2000.

On February 22, 2000, all IGIA Federal members were given a packet containing the IGIA Draft Progress Report and a schedule of "issue cluster" meetings for the period between February 23 and March 1. The Draft Report featured summaries which included an analysis of the issues identified by the insular area business and community leaders. The report identified areas of concern that the islands share and a proposed action plan for each key issue cluster.

During the eight "issue cluster" meetings, IGIA Federal members met with representatives from the island Governors' and Delegates' offices and discussed all the identified issues, as well as other related items of concern. These sessions further clarified the issues that had been generated over the last two months creating a hierarchy which led to two sets of issues designated as Phase I issues and Phase II issues. Based on the "issue cluster" meetings, Phase I issues displayed the potential for more immediate progress, while Phase II issues were longer term in nature. During these sessions, Federal and island IGIA representatives met, listened to each other and discussed proposed actions plans on all Phase I issues and many Phase II issues.

The March 1 meeting covered the range of issues confronting the islands, and summarized the impressive strides made by the IGIA since the initial all Federal partners meeting held on January 18. Evidencing the significance of this event was the presence of Mickey Ibarra, the White House Director for Intergovernmental Affairs and Maria Eschaveste, White House Deputy Chief of Staff. Following presentations by all insular Governors and Delegates, the IGIA's Co-Chairs delivered a summary of the staff level discussions that were held throughout the previous two months. A Progress Report was promised by the end of the month.

During March, IGIA staff worked extensively with Federal agency staffs to follow-up on high priority issues and further refine the IGIA Draft Progress Report. The IGIA staff also completed a review of the agencies' Program inventories. The revised draft was circulated to all Federal IGIA members in advance of small group meetings which were held on March 22 and 23, 2000. During these small group meetings, the IGIA and agency staff sought to make additional progress on identified issues and action items as well as to pre-clear the language of the IGIA Draft Progress Report. Additionally, the IGIA staff briefed the Federal IGIA members on future plans, and delivered to Federal members a report entitled "Federal Grants Review, U.S. Territories," that outlined federal grants awarded on an agency-by-agency and island-by-island basis. The report also outlined federal grant programs for which the islands are eligible but have not participated in.

After the several stages of review discussed above, the Draft Report provides a roadmap of follow-up items planned for each issue and laying out the work that remains. The IGIA plans to engage Insular Area representatives during the next few months to bring closure to as many of these issues as possible.

A. ACTION PLANS FOR FIFTEEN (15) PHASE ONE ITEMS

1. Assistance for Economic Planning

The narrowly-based economies of the insular areas, coupled with their lack of growth over the past several years, warrant effective development planning. This includes careful strategies and adequate resources to broaden the private sector. None of the areas have sufficient expertise to develop long range plans.

Federal agencies: **Department of the Interior**
 Department of Commerce/Economic Development Agency (EDA)

Action Items:

- ✓ EDA will identify grant programs and other funding streams to assist territories in developing economic plans and strengthening planning capabilities.

2. Include the Islands in Federal Trade Missions

Export and import businesses in the insular areas, already made vulnerable by poor economies, are affected by overall U.S. trade agreements. Their inclusion in Federal trade missions would enhance the potential for economic growth by enticing new investors, developing new industries, and creating jobs.

Federal agencies: **Department of the Interior/Office of Insular Affairs (OIA)**
 Department of Commerce/US and Foreign Commercial Service (USFCS)

Action Items:

- ✓ The Office of Insular Affairs and USFCS will provide a list of upcoming missions of interest to insular areas.
- ✓ USFCS will consider inviting representatives from insular areas to participate in appropriate missions.

3. Include the input of islands in re-negotiation of tax treaties; formulate a replacement for the Foreign Sales Corporations (FSC) tax program

The insular areas are not included in U.S. tax treaties. They feel this places them at an economic disadvantage. Programs like the FSC arising from the World Trade Organization negotiations

impact the islands. Substantial revenue from taxes levied for corporations using the foreign sales incentive would be reduced.

Federal agencies: **Department of the Interior (OIA)**
 Department of the Treasury
 US Trade Representative
 Department of State

Action Items:

- ✓ Treasury will summarize the status of current tax treaties and when new negotiations may be scheduled.
- ✓ Treasury and OIA will expedite an Administration review of HR 2462, section 3, which would permit Guam to match Federal withholding rates on remittances abroad.
- ✓ USTR, OIA and Treasury will facilitate meetings with insular area representatives to update them on possible options and future actions regarding FSCs.

4. Review of visa requirements and eligibility, reimbursement for housing smuggled aliens, Bureau of Prison debt, habitual residence regulations

The diversity of populations in the insular areas, means that foreign citizens require special logistical consideration related to the issuance of visas to U.S. ports of entry. The location and isolation of the islands make them attractive targets for the smuggling of illegal aliens. CNMI, Guam, and the U.S. Virgin Islands have housed these aliens in special camps and prisons at the request of the Federal Government.

Federal agencies: **Department of the Interior**
 Department of Justice
 Department of State
 Department of Labor

Action Items:

- ✓ Upon receipt of specific detailed proposals, the Department of Justice will review the following territorial requests for visa programs:
 - Shoppers
 - Fishing crew members
 - Fiancé and fiancée
 - Bereavement
 - Family members
 - Guam-only Philippine citizens

- ✓ The Department of Justice, the Virgin Islands and Guam will meet to review and compare their respective methods for calculating the per prisoner cost and thereafter will discuss the per prisoner reimbursement figure to the Virgin Islands and Guam for the housing of illegal aliens.
- ✓ The Department of Justice Immigration and Naturalization Service will respond to an IGIA request for a time line for the issuance of congressionally mandated regulations on habitual residents from the freely associated states who reside in the territories.
- ✓ The Department of Justice will review the Virgin Islands' rationale for writing-off debt owed to the Bureau of Prisons by the Government of the Virgin Islands.
- ✓ The IGIA will convene a meeting of the interested Federal agencies (DOJ, DOS, DOL, DOI) with knowledgeable territorial representatives to discuss and seek conclusions to these immigration and prison issues.

5. Job training assistance

Sustainable economic growth in the insular areas requires the reinvigoration of current industries and the development of new ones. A skilled labor force, whether newly prepared or retrained, is essential.

Federal agencies: **Department of the Interior (DOI)**
 Department of Education (DOEd)
 Department of Labor (DOL)

Action Items:

- ✓ The IGIA will request the Outer-Pacific Committee of the Region IX Federal-Regional Council to assign a team to provide technical assistance in developing a strategic community-based vocational training plan that maximizes combined funding support from Federal, local, and private sources.
- ✓ DOEd and DOL will identify grant programs and other funding streams that will enable the insular areas to improve and expand vocational counseling in high schools.
- ✓ DOEd and DOL will identify grant programs and other funding streams to strengthen vocational training in all insular areas, and will enlist other appropriate Federal departments and agencies as partners in that effort.

6. Review of Interior Inspector General's approach in insular areas

Over the years, Interior's Inspector General has made several recommendations for changes in insular area management controls that were not implemented. Greater interaction ultimately would benefit local financial conditions and improve Federal/insular area relationships.

Federal agencies: **Department of the Interior/OIA**
 Department of the Interior/Inspector General

Action Items:

- ✓ At the request of the IGIA, a meeting was held on March 7, 2000 to begin a dialogue on the issues surrounding the Inspector General's approach in the insular areas.
- ✓ Interior Inspector General will prepare a summary of recommendations which need urgent attention by island governments.
- ✓ The Office of Insular Affairs and the Interior Inspector General will work with the island governments to devise a process for refining recommendations made as a result of audits, and for implementing recommendations after full input is received.
- ✓ The Office of Insular Affairs will coordinate and facilitate meetings between the Interior Inspector General, DOEd, HHS, HUD, DOJ, USDA, FEMA, and Commerce on all financial assistance programs to improve island grant management capabilities, accountability and processes.

7. Inclusion in New Markets Initiative, Empowerment Zones:

Finding solutions to help the limited and weak financial conditions of the insular areas require innovative strategies. Their designation as enterprise/empowerment zones and inclusion in the President's New Market Initiatives program, can assist with revitalizing depressed economies and stimulate growth.

Federal agencies: **Department of the Treasury**
 White House/National Economic Council (NEC)
 Department of Housing and Urban Development (HUD)
 Commerce/Minority Business Development Agency (MBDA)
 Small Business Administration (SBA)
 Department of Agriculture (USDA)

Action Items:

- ✓ Agencies will discuss the application of the New Market Initiatives, including but not limited to the New Market tax credits, the New Market America's Private Investment Corporation and the New Market Venture Capital proposal to the insular areas.
- ✓ OIA seeks favorable federal agency comment on the passage of H.R. 3247 which would extend to all insular areas the development of Enterprise/Empowerment Zone Designation.

8. Apply US statistical programs in insular areas:

The insular areas do not have the capability to systematically generate reliable data that are necessary for sound economic planning and development.

Federal agencies: **Department of Commerce/Census Bureau/Bureau of Economic Analysis (BEA)**
 Department of Labor/Bureau of Labor Statistics (BLS)

Action Items:

- ✓ OIA and Census will identify statistical programs such as the American Community Survey, not now applied in the insular areas, and will clarify the cost and other issues surrounding the application of such programs to the insular areas.

9. Review of Ritidian issues and Saipan Mitigation bank requirements.

Although only Guam and the CNMI have specifically raised issues surrounding ownership or the return of Federally-owned lands, the issue also affects other insular areas. Rounds of discussion do not always address the concerns of the insular areas. Federal environmental regulations affect land use and local development needs.

Federal agencies: **Department of the Interior/Fish and Wildlife Service (FWS)**
 Department of the Interior/Solicitor's Office (SOL)
 Department of the Interior/Office of Insular Affairs (OIA)
 General Services Administration (GSA)
 Department of Defense

Action Items:

- ✓ Secretary Babbitt will schedule a meeting with Guam Governor Gutierrez to address Ritidian issues in light of recent exchange of correspondence. On the agenda:
 - Discuss potential joint conservation efforts by FWS and GovGuam

- Discuss the potential critical habitat lawsuit to obtain a preliminary sense of GovGuam's position and the necessity to abide by the Endangered Species Act.
 - Discuss the Department of the Interior's efforts to manage and eradicate the Brown Tree Snake and reintroduce the endangered species
 - Discuss the Guam National Wildlife Refuge's current staffing and employee practices
 - Discuss working more closely with and sharing information with Guam's Aquatic and Wildlife Resources Division
 - Discuss continuing efforts by Refuge and GovGuam personnel to respond jointly to rescue and medical emergencies
 - Discuss GovGuam's poaching enforcement efforts
- ✓ FWS Director will provide to CNMI Governor Tenorio a status update on Saipan mitigation bank issues.
- Outline the mitigation conditions currently being proposed by FWS
 - Outline the legal and scientific bases upon which mitigation is sought
 - Raise other options and alternatives for mitigation conditions including responding to the CNMI's proposals
 - Offer regular meetings/communications with Governor's office

10. Leverage construction funds and technical assistance on VI wastewater facilities

Although only the U.S. Virgin Islands has asked for assistance in the area of solid waste and wastewater management, the issue is applicable to all insular areas. Development and implementation of remedial and proactive action plans would likely require environmental impact assistance, and interim financing to support operations and certain construction projects.

Federal agencies: **Department of the Interior**
 Environmental Protection Agency (EPA)
 Department of Agriculture (USDA)
 Federal Aviation Agency (FAA)

Action Items:

- ✓ OIA will arrange a meeting between the VI, EPA and FAA to further refine a Solid Waste Management Plan.
- ✓ OIA will arrange a meeting between the VI, EPA and USDA to develop a plan to help the VI access wastewater construction and maintenance programs.
- ✓ The IGIA will encourage the VI to subcontract for the operation and maintenance of its wastewater facility as soon as possible and to participate in OIA's Operations and

Maintenance Improvement Program to garner the necessary training.

11. Apply normal environmental procedures and foster better public outreach on Tanapag PCB issues.

Remediation to resolve PCB contamination in and around Tanapag Village began ten years ago and soil testing is still continuing. The health hazards to residents are potentially serious but the real extent of problems is unknown. Plans for a clean-up program must first pass the muster of multiple local and Federal agencies.

Federal agencies: **Environmental Protection Agency (EPA)**
 Department of Defense (DOD)/Army Corps of Engineers (ACE)
 Department of Health and Human Services/Agency for Toxic
 Substances and Disease Registry (ATSDR)
 Department of the Interior/OIA

Action Items:

- ✓ OIA will facilitate the coordinated communication of pending agency actions and progress reports to the CNMI Governor Tenorio and CNMI Resident Representative Babauta.
- ✓ OIA will offer to provide technical assistance to the CNMI to help in public outreach efforts by EPA, HHS/ATSDR and ACE.
- ✓ The IGIA will encourage OIA, EPA, ACE, HHS/ATSDR and DOD to conduct regular joint meetings with the offices of the Governor and Resident Representative to provide updates and obtain input, particularly on appropriate standards of clean up, remediation costs and funding sources.
- ✓ The IGIA will encourage HHS/ATSDR to assist the CNMI to define a specific protocol for performing PCB exposure histories of Tanapag residents, and as related to defining pathways of possible exposure to PCBs in support of public health assessment activities for the Tanapag community.
- ✓ The HHS and DOD will jointly assist and support the CNMI in implementing biological testing and in providing any necessary follow-on medical care related to PCB exposure.

12. Waive insurance requirements for concrete buildings

The Stafford Act requires that applicants have insurance for all infrastructure that are eligible for future community disaster loan assistance. The availability of such insurance, particularly for concrete buildings, poses a concern for the economically-strapped insular areas.

Federal agencies: **Federal Emergency Management Agency (FEMA)**
 Department of the Interior/OIA

Action Items:

- ✓ OIA will arrange a meeting with FEMA to discuss the waiver possibility.
- ✓ FEMA recently published an Advanced Notice of Proposed Rulemaking (ANPR) with respect to the issue of insurance purchases on publicly owned facilities. OIA will encourage interested insular areas to provide comments on the ANPR to FEMA.

13. Coordination of all financial assistance programs to improve island grant management capabilities, accountability and processes

The insular areas historically have had difficulty in meeting Federal grant accounting and reporting requirements. Financial management controls and efficient government-wide management systems are still in developmental stages. Technical assistance is essential to further that growth.

Federal agencies: **Department of Education (DOEd)**
 Department of Health and Human Services (DHHS)
 Housing and Urban Development (HUD)
 Department of Agriculture (USDA)
 Department of Commerce
 Federal Emergency Management Administration (FEMA)
 Department of the Interior (OIA)

Action Items:

- ✓ The IGIA will identify appropriate central office and field staff from the agencies, to form a working group to pinpoint grant management problems and provide recommendations to strengthen management capacities in the insular areas.
- ✓ OIA will coordinate the convening of insular area symposia to discuss major grant management problems, compliance incentives, and technical assistance available to the insular areas from Federal program offices.
- ✓ The IGIA will encourage a multi-year initiative by the appropriate Federal Departments or Agency program offices to team up and pool their resources to support a new position in each insular area, the mission of which will be to strengthen overall grants management procedures and processes.

- ✓ The IGIA will encourage the conduct of joint grant monitoring visits by agencies.
- ✓ OIA will explore the feasibility of launching an interactive web site for agencies to share information on grant management issues and approaches.

14. Include the insular areas in Transportation's bilateral aviation agreements

The reciprocal landing rights agreements between the United States and foreign countries impact the insular areas because of location, small size, and economic fragility.

Federal agencies: **Department of the Interior/ OIA**
 Department of Transportation (DOT)/FAA
 Department of State

Actions:

- ✓ The Department of State will inform the Department of the Interior about upcoming bilateral aviation negotiations
- ✓ Upon notification by the Department of State of upcoming bilateral aviation negotiations, the Department of the Interior will determine whether it wishes to send a representative, and will notify the insular area Governors that island representatives may attend the negotiations.
- ✓ The IGIA will inform the insular areas that they may petition the Department of Transportation for expanded activities at island international airports, as has been done by Hawaii and Alaska.

15. Disposal of Federal Lands on Insular Areas

The small size of the insular areas makes land ownership a critical issue for development and growth. The islands, at a minimum, would like notification when Federal lands are declared excess.

Federal agencies: **Department of the Interior (OIA/FWS/NPS)**
 General Services Administration(GSA)
 Department of Defense (DOD)

Action Items:

- ✓ GSA will endeavor to notify the insular Governor whenever it screens excess property on that insular area for further utilization, so that the insular Government can prepare for the possibility that the land will become surplus, and therefore be available for

acquisition by the insular government.

- ✓ The IGIA will coordinate efforts with Governor Gutierrez and Congressman Underwood and the Federal landholding agencies to develop a coordinated federal policy on making excess Federal land on Guam available for acquisition by the Government of Guam.
- ✓ DOI, GSA and DOD will review legislation submitted by Congressman Underwood (HR2462) that establishes a procedure for making excess Federal land on Guam available for acquisition by the Government of Guam.

B. STATUS OF PHASE TWO ISSUES - ARRANGED BY ISLAND

American Samoa's other issues

1. Internal Revenue Code Section 936

This is the possessions tax credit, which effectively exempts U.S. corporations operating in insular areas from U.S. income tax. This incentive to the tuna canneries and to new investment in American Samoa is being sunsetted in 2005. A replacement for this 'possessions tax credit' is desired.

A working group meeting held on 2/24/2000 with Treasury.

Action Plan:

- ✓ The Department of Treasury will consider the issue.

2. Trade agreements

American Samoa would like to provide input to the Federal entities involved in the negotiation of trade agreements with other countries.

A working group meeting held on 2/24/2000 with State, USTR and Commerce.

Action Plan:

- ✓ The IGIA will arrange meetings between the American Samoa Governor or his representatives and Federal entities involved in the negotiation of trade agreements, such as the Deputy Chief Textile Negotiator and the Committee for the Implementation of Textile Agreements which sets textile policy

3. SBA minority business status

American Samoa wants an SBA office in the territory. It also wants the extension of minority business status - (8a) firms - to companies doing business there.

Working group meetings were held on 2/24/2000 and on 2/25/2000 with Commerce, SBA/MBDA.

Action Plan:

- ✓ Although there are no program impediments to the establishment of an SBA presence on American Samoa, an Island/Federal Partnership will be formed to discuss the potential for funding such an office.
- ✓ The SBA laws and regulations should be reviewed to confirm the scope of their programs' applicability in the territories.

4. Jurisdiction over certain islands

American Samoa is interested in having jurisdiction over certain islands (Baker, Jarvis, etc.), now in administrative control of the Department of the Interior. If this can be accomplished, the territory would be able to extend its Exclusive Economic Zone (EEZ).

Working group meetings held on February 28, 2000 with Interior, State, and Commerce and Defense.

Action Plan:

- ✓ Although the State Department explained that American Samoa legally cannot extend its EEZ, and Congress would need to authorize the attachment of islands, a Federal Department/Island Partnership will be formed to conduct a series of further interagency and intergovernmental discussions, with the goal of obtaining as much progress as possible and as quickly as possible toward boosting the local fishing industry and protecting the American Samoa fleet.

5. Federal program eligibility

American Samoa wants to be reinstated in the Federal Highway Administration T-21 program. It also would like to be included in the Mass Transit ocean ferry vessels programs.

Working group meetings were held on 2/28/2000 with Department of Transportation (DOT)/Federal Highway Administration (FHWA).

Action Plan:

- ✓ The Federal and insular participants agreed to conduct a series of further interagency and intergovernmental discussions, with the goal of obtaining as much progress as possible toward including American Samoa in these programs.

6. Federal program changes

- American Samoa would like a waiver of the matching requirement under the Economic Development Administration's EDRLF program for the Development Bank of American Samoa.
- The LBJ Hospital, the only hospital in the territory, would like to increase its annual allocation under the Medicaid block grant program.
- American Samoa needs assistance in understanding the programs under the Welfare Reform Act, and in participating in these programs.

Working group meetings held 2/24/2000, 2/25/2000, 2/28/2000 with all relevant agencies.

Action Plan:

- ✓ Federal and Insular participants agreed to conduct a series of further interagency and intergovernmental discussions, with the goal of obtaining as much progress as possible in involving American Samoa in these programs.

7. Local food production

- The Government of American Samoa would like to increase local food production in order to both avoid excessive food prices and increase the production in the local economy and reduce the approximate 90% dependence on imports.
- The Government of American Samoa would like the Department of Agriculture (USDA) to provide technical assistance in the area of food research and development, in addition to those programs available from Hawaii.

Working group meetings were held on 2/28/2000 with USDA.

Action Plan:

- ✓ USDA set up a further meeting on March 2, 2000 with ASG representatives. As a result of that meeting, American Samoa is now pursuing the use of rural development loans to fund training for farmers and training to increase productivity and land use.

8. Environmental regulations

American Samoa requested that it be exempt from certain requirements under the Clean Air Act and Clean Water Act on the requirement to use a 2% land base fuel.

A working group session was held on 2/25/2000 with EPA.

Action Plan:

- ✓ EPA and Department of Energy will look at alternative fuel approaches that may pose less economic hardship on the ASG and at the same time meet the Clean Air Act and Clean Water Act requirements.

9. Forgiveness by FEMA of disaster loans

ASG would like forgiveness of certain FEMA debts incurred after Hurricanes.

A working group session was held on February 25, 2000 with HUD.

Action Plan:

- ✓ OIA will seek further clarification from American Samoa government on the details of its proposal to FEMA. FEMA will study the proposal and coordinate with OIA before responding to ASG.

10. General Note 3(a) - Textiles

- American Samoa would like to have textiles that are cut and assembled in American Samoa but sewn elsewhere, treated the same as textiles fashioned in Israel.
- American Samoa feels this will give a boost to their textiles industry.

Action Plan:

- ✓ OIA will pursue this issue further with appropriate agencies

CNMI's other issues

1. Compact impact

The CNMI wishes to be compensated for the cost of the impact of Micronesian migrants who have entered the CNMI under the Compacts of Free Association.

A working group meeting held on 2/25/2000 with Department of the Interior/OIA.

Action Plan:

- ✓ OIA is preparing an annual Compact Impact report.
- ✓ OIA is reviewing the CNMI's request for compensation.

2. Investment and tourism promotion:

- The recent decline of tourism and the prospective decline of the garment industry highlight the need to revitalize tourism and promote new investment in other industries.
- Investment promotion needs to be coordinated with development planning.
- Tourism officials have expressed a need to evaluate current promotional efforts to improve their efficiency.

A working group meeting held 2/25/2000 with **Commerce/EDA/US and Foreign Commercial Service.**

Action Plan:

- ✓ EDA may be able to assist in evaluating tourism promotion

3. Tax reform:

The CNMI's complex tax system is an obstacle to investment. Studies have been done on the system and the Federal government has recommended that the CNMI implement the mirror tax system as contemplated by the Covenant.

A working group meeting held on 2/24/2000 with **Treasury.**

Action Plan:

- ✓ Other tax issues were discussed but changing the CNMI tax system was not.

Guam's other issues

1. Amend Treasury regulations on Residence of Trusts and Estates, 26 C.F.R. Part 301 and 602; Residence of Trusts and Estates -7701; effective February 2, 2000

The regulations define and determine the residency of trusts as foreign or domestic for federal tax purposes.

- These new regulations make a distinction between "foreign" and "domestic" trust companies, with the effect that "domestic" trust companies can bring in overseas investment, while "foreign" trust companies cannot.
- The regulations do not include Guam (and the other territories) within the definition of "domestic trust companies", thereby excluding them from this potentially profitable benefit.
- Those entities selecting Guam banks for their trust accounts will be deemed foreign and taxed at higher rates. [See section 7701(a)(9)]

A working group meeting held on 2/24/2000 with **Treasury, US Trade Representative (USTR) and Commerce.**

Action Plan:

- ✓ This issue was discussed with all Departments, but the IGIA was informed that the Governor **no longer wanted to pursue relief from the definition.** This was a policy change implemented just prior to the working group sessions. **No further action will be taken on this issue.**

2. Consideration of Guam for the homeporting of additional Navy military supply ships and U.S. Navy aircraft carriers, and for increased military training and increased liberty.

- During 1986-87, five U.S. Navy supply vessels were home ported on Guam with a combined personnel force totaling 2000 sailors and officers. Today only the USS Frank Cable is home ported on Guam with 400 people.
- Guam's research indicates that there will need to be additional spending on infrastructure, support facilities and manpower resources for Guam to be competitive with San Diego, Hawaii and Yokosuka, Japan. If the vessels now home ported in Yokosuka are ever relocated, Guam expects the major competitors will be Guam, San Diego and Singapore.
- Closer relations with the military: Guam wants DOD to consider using Guam more often as a Rest and Relaxation (R&R) port of call. Guam wants to encourage DOD to use the island more often as a training facility or training ground for maneuvers.

Working group meetings were held on 2/28/2000 with **Defense.**

Action Plan:

- ✓ DOD understands the concerns raised by the Government of Guam and will take their concerns to the relevant functional disciplines to begin a dialogue on these issues.

3. Tax relief from the imposition of new tax cuts and the Earned Income Tax Credit (EITC): Give Guam an option

- The territories want to maximize their General Fund revenues through taxes without increasing taxes on the local population.
- The territories only want to choose those provisions of the IRS Tax Code and any subsequent reforms that favor their electorates.
- Guam wants the Federal Government to return the EITC to the territories.

A working group meeting was held on 2/24/2000 with **Treasury**.

Action Plan:

- ✓ The IGIA and the insular areas agree to conduct a series of further interagency and intergovernmental discussions, with the goal of revisiting the provisions of the Tax Reform Act of 1986, which authorized the territories to “de-link” from the mirror code, and re- evaluating the status of each territories’ attempts to implement de-linkage, identify current issues and challenges, and issue recommendations to address delinkage.

4. FAA/NTSB dispute.

Currently there is a dispute between the FAA and the National Transportation Safety Board (NTSB) regarding whether to designate Guam as a "special designation airport." If this designation occurs, all airlines flying into Guam will be required to have a special pilot training certification to be renewed every six months. The Government of Guam believes that this requirement will deter many carriers from choosing Guam as a destination. The territory would like this dispute to be settled in its favor in order continue to permit all carriers to consider Guam a desirable destination.

A working session was held on 2/28/2000 with **DOT/ FAA/ NTSB**.

Action Plan:

- ✓ After meeting with the IGIA, **Guam has resolved this issue.**

5. Fund Federal mandates on formula grants

Territories are dissatisfied with the caps in Medicaid and the Temporary Assistance to Needy Families Program (TANF) and want equal or greater participation than they have currently.

Working group meetings were held on 2/24/2000 and 2/25/2000 with HHS, HUD, DOEd, USDA, DOL, DOI.

Action Plan:

- ✓ Members of the IGIA from HHS, HUD, DOEd, USDA, DOL, DOI, Justice, State and the insular areas agreed to discuss the issue.

6. Promote Guam as a bridge between Asia and U.S.

- Guam's position as the western-most U.S. territory can provide U.S. companies seeking to do business in Asia (especially markets opening in China) with high-speed, high-capacity and reliable telecommunications infrastructure, with a U.S. legal system that can protect contract and intellectual property rights, and with general political stability.

A working group session was held on 2/24/2000 with **USTR, Commerce and State.**

Action Plan:

- ✓ The IGIA will consider specific proposals from Guam.

Virgin Islands' other issues

1. Rum and gasoline tax cover-over

- The Virgin Islands would like the cover-over of 100% of U.S. excise taxes on VI rum to be made permanent and would like to receive a cover-over of taxes on gasoline as well.

A working group meeting held 2/24/2000 with Department of Treasury.

Action Plan:

- ✓ The Supreme Court ruled against the V.I.'s gasoline tax claim. There is no interest on the part of the Federal government to re visit this issue.
- ✓ The cover over law was then amended to limit it to rum. In 1998, the Clinton Administration asked Congress to increase the cover over on rum from \$10.50 to \$13.50 per proof gallon for five (5) years. After two years of effort, the Administration got Congress to increase the cover over to \$13.25 for 2½ years on the agreement that this issue would not be re-opened.

2. Forgiveness by FEMA of disaster loans

The VI would like FEMA to forgive certain debts.

A working group session was held on March 23, 2000 with FEMA.

Action Plan:

- ✓ FEMA officials will study the proposal it has received from the U.S. Virgin Islands and will respond in coordination with OIA.